

Message Text

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72

ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 AGR-20

COME-00 TAR-02 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 PA-04 PRS-01 USIA-15 SWF-02 DRC-01 /164 W

----- 126276

R 221415Z MAY 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 7093

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMCONGEN GUAYAQUIL

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SAN JOSE 1944

E.O. 11652: GDS

TAGS: ETRD, CS

SUBJECT: BANANAS--CONVERSATION WITH STANDARD

GO CR LIAISON OFFICER ON STANDARD SALE OFFER

REF: SAN JOSE 1901

1. SUMMARY: IN WIDE RANGING CONVERSATION WITH
STANDARD OFFICIAL EMBOFFS LEARNED THAT ODUBER ADMINISTRATION HAS
NOT RESPONDED TO STANDARD'S OFFER TO SELL BUT APPEARS TO BE
GIVING MATTER VERY CAREFUL STUDY. STANDARD PRICE IS \$16 MILLION
FOR ALL LOCAL HOLDINGS. WE GOT THE IMPRESSION STANDARD STILL
WILLING TO STAY IF REASONABLE TAX (SAY ABOUT 10 CENTS) COULD BE
NEGOTIATED BUT CHARGE ATMOSPHERE MIGHT WELL MAKE THIS
IMPOSSIBLE. EVEN BEFORE FIGUERTS PROPOSED THE TAX STANDARD
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WAS WORRIED ABOUT OVER-EXPANSION IN CENTRAL AMERICA SO TAX

IF EFFECT COULD BE THE STRAW THAT BROKE THE CAMEL'S BACK.

2. AT LUNCH MAY 21 CHARGE AND EMBOFF HAD WIDE RANGING CONVERSATION WITH EDUARDO DE LA ESPRIELLA, A STANDARD FRUIT OFFICIAL, ON STATUS OF STANDARD'S OFFER TO SELL AND ANTECEDENTS. DE LA ESPRIELLA, A COSTA RICAN, WAS BROUGHT TO COSTA RICA FROM COLOMBIA ABOUT TWO WEEKS AGO BY STANDARD TO ACT AS THE COMPANY'S LIAISON OFFICER WITH THE GOCR DURING PRESENT DELICATE STAGE OF COMPANY-COSTA RICAN RELATIONS. HE EXPECTS TO BE TRANSFERRED TO BRAZIL AFTER COMPLETING HIS MISSION HERE, PERHAPS WITHIN A MONTH. HIGH POINTS OF THE CONVERSATION WERE:

A. STANDARD HAS HAD NO DIRECT RESPONSE TO ITS OFFER TO SELL OUT TO THE GOCR AS REPORTED REFTEL. THERE HAS BEEN NO REQUEST YET TO BEGIN NEGOTIATIONS ON A POSSIBLE TAKE-OVER. (NOTE: AT A PRESS CONFERENCE ON MAY 20, ODUBER REPORTEDLY SAID HE HAD MADE SUCH REQUEST.) DE LA ESPRIELLA BELIEVES THAT THE ODUBER ADMINISTRATION HAS WISELY DEFERRED ITS ANSWER WHILE IT INFORMS ITSELF OF ALL THAT IS INVOLVED. (THE IMPLICATION WAS THAT SOME OF THE EMOTION CHARACTERIZING THE SITUATION A FEW DAYS AGO HAS BEEN DISPLACED BY SERIOUS STUDY OF THE OVERALL SITUATION.)

B. REGARDING RELEASE OF STANDARD FROM FURTHER ACCRUAL OF LIABILITY FOR THE TAX MENTIONED IN STANDARD'S LETTER (PARAGRAPH 4C REFTEL) DE LA ESPRIELLA SAID THIS WAS NOT RPT NOT BASED ON ANY UNDERSTANDING WITH THE GOCR BUT WAS ADDED BY SAN FRANCISCO WITHOUT LOCAL CLEARANCE ON THE LOGIC THAT ONCE THE PROPERTY PASSED TO THE STATE IT WOULD NOT TAX ITSELF. DE LA ESPRIELLA ADMITTED THAT THIS POINT WAS FLIMSY AND IF AGREED TO BY THE GOCR WOULD IMMEDIATELY PRESENT PROBLEMS OF A DISCRIMINATORY NATURE IF THE TAX WAS ASSESSED AGAINST OTHER FOREIGN COMPANIES.

C. BOOK VALUE FIGURE REFERRED TO IN THE LETTER IS \$16 MILLION (NOT \$40-50 MILLION AS REPORTED IN PRESS) WHICH WOULD INCLUDE APPROXIMATELY 7,000 HECTARES, WORKING HOUSING, AND OTHER STANDARD ASSETS. DE LA EXPRIELLA SAID THIS FIGURE WAS CONSIDERABLY BELOW A "FAIR MARKET VALUE" APPRAISAL BUT ADMITTED THAT EVEN AT THIS RELATIVELY LOW FIGURE THE GOCR WOULD CONFIDENTIAL

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NOT NECESSARILY BE GETTING A GOOD DEAL UNLESS IT COULD MAINTAIN BANANA OPERATIONS INCLUDING NORMAL MARKETING (E.G. IF LAND TURNED INTO CATTLE OPERATIONS, LABOR INTENSITY LOSS WOULD BE STAGGERING FOR LIMON AREA).

D. HE DESCRIBED SITUATION UNDER ODUBER AS MUCH MORE ENCOURAGING EVEN THOUGH HE SAID HE HAD DIFFICULTY IN SEEING THE OFFICIALS HE WANTED TO (MOST PARTICULARLY, HE HAS NOT BEEN ABLE TO SEE

CARLOS MANUEL CASTILLO). IN CONTRAST FIGUERES WAS COMPLETELY IRRATIONAL TO THE POINT WHERE COSTA RICA AND OTHER PRODUCING COUNTRIES HAD BEEN FORCED INTO A POSITION WHERE IT WAS VERY DIFFICULT TO BACK DOWN.

E. AS AN EXAMPLE OF THE WAY EMOTION HAS CLOUDED LOGIC DE LA ESPRIELLA SAID THAT ONE RESULT OF LAST WEEK'S UPEB MEETING WAS REAFFIRMATION OF THE \$1 TAX FIGURE BUT THAT NO ONE REALLY KNOWS AT THIS POINT HOW MUCH THE TAX WILL END UP BEING AND HOW IT WILL WORK.

F. HE AFFIRMED THAT STANDARD HAD RECENTLY INCREASED SHIPMENTS FROM ECUADOR BUT SAID THIS WAS NOT SUFFICIENT TO OFFSET CUTBACKS IN COSTA RICA AND HONDURAS.

3. WE HAD A BRIEF AND INCONCLUSIVE DISCUSSION OF STANDARD'S ELASTICITY OF DEMAND ARGUMENT WHICH LEAD INTO AN INTERSTING DISCUSSION OF COMPARATIVE ECONOMICS OF STANDARD'S OPERATION. EVEN BEFORE IMPOSITION OF THE TAX DE LA ESPRIELLA SAID STANDARD WAS WORRIED ABOUT RISING COSTS IN COSTA RICA (INCLUDING COSTA RICA'S COSTLY SOCIAL PACKAGE). HE SAID THAT ACTUALLY ALL BANANA COMPANIES HAD OVER-EXPANDED IN CENTRAL AMERICA WITH THE NEWER DISEASE RESISTENT BANANAS AFTER PANAMA DISEASE HAD DESTROYED OLD PLANTATIONS, WITH THE RESULT THAT NOW THE INDUSTRY WAS CLEARLY IN TROUBLE. (HE DID NOT RESPOND TO THE OBSERVATION THAT PERHAPS WHAT HE WAS SAYING WAS THAT COSTA RICA WAS ALREADY MARGINAL PRIOR TO THE ATTEMPT TO IMPOSE THE TAX.) LATER IN THE CONVERSATION, HOWEVER, WHEN PRESSED HE SUGGESTED THAT STANDARD STILL MIGHT BE ABLE TO LIVE WITH THE TAX OF 10 CENTS PER BOX

4. COMMENT: DE LA ESPRIELLA LEFT US WITH THE IMPRESSION THAT DESPITE STANDARD'S MAY 17
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CABLE WHICH NOTED "THE ULTIMATE INCOMPATIBILITY OF OUR POINTS OF VIEW" STANDARD WAS STILL IN NO SENSE EAGER TO DIVEST ITSELF OF ITS COSTA RICAN HOLDING AND INDEED WOULD BE QUITE WILLING TO CONTINUE UNDER THE RIGHT CONDITIONS. AT THE SAME TIME STANDARD'S OFFER TO SELL OUT IS A BONA FIDE IF THE GOCR WILL NOT BACK DOWN ON THE TAX.

5. AS DISCUSSED WITH DE LA ESPRIELLA ONE OF THE REGRETTABLE FACTORS OF THIS WHOLE EPISODE HAS BEEN POOR PUBLIC RELATIONS AND AT TIMES A TOTAL LACK OF COMMUNICATIONS EVEN WHEN PEOPLE WERE IN THE SAME ROOM TALKING AT EACH OTHER. IN ADDITION THE WHOLE QUESTION OF MARKETING COMPLEXITIES SEEMS TO BE MOST IMPERFECTLY UNDERSTOOD HERE. MANY COSTA RICANS ARE CONVINCED THAT THE FRUIT COMPANIES SHIFT LOSSES AT WILL AND ENGAGE IN PRICE

WARFARE AMONG THEMSELVES, ALWAYS TO THE ULTIMATE DESTRIMENT OF THE
PRODUCERS. THE APPLICABILITY OF THE U.S. ANTI-TRUST
LEGISLATION IS NOT UNDERSTOOD BUT SUSPICIONS
ARE THAT THIS, TOO, WORKS AGAINST PRODUCER COUNTRIES.
IN SUM, COSTA RICANS REALIZE THAT AS A PERISHABLE FRUIT
THE TECHNOLOGY OF BANANA MARKETING IS COMPLEX. NEVERTHELESS,
THEY SUSPECT THAT THE BANANA MARKET IN THE UNITED STATES
IS SUBJECT TO MANIPULATIONS BY THE BIG COMPANIES.
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